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DIRECTORATE OF  
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SECRET

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# *Central Intelligence Bulletin*

## CONTENTS

USSR: Gromyko's remarks on force reductions. (Page 1)

LAOS: The Communists are keeping up the pressure in southern Laos. (Page 3)

PHILIPPINES: Marcos may provoke antigovernment demonstrations. (Page 4)

CYPRUS: Another period of intense political maneuvering is getting under way. (Page 5)

TRINIDAD-TOBAGO: Elections. (Page 6)

TANZANIA: Economic problems. (Page 7)

ITALY-FRANCE: The Czechoslovak issue is still divisive in the Communist parties. (Page 8)

AUSTRIA - COMMUNIST CHINA: Diplomatic relations (Page 9)

ROMANIA: Ceausescu trip to Peking (Page 9)

USSR: Biological warfare stockpiles (Page 10)

SAUDI ARABIA: Faysal trip to Japan and Nationalist China (Page 10)

[Redacted]

25X1

CHILE: Friction with creditors (Page 11)

BOLIVIA: Antigovernment front (Page 11)

VENEZUELA: Nationalization of gas resources (Page 11)

[Redacted]

25X1

AFGHANISTAN: Government resignation (Page 13)

SECRET

SECRET

\*USSR: In a meeting with Ambassador Beam yesterday, Foreign Minister Gromyko suggested that the Soviets would be receptive to a Western proposal on Mutual Balanced Force Reductions (MBFR), but he did not significantly expand upon Brezhnev's recent proposal to "start negotiations."

He did confirm that the USSR is now prepared to discuss either foreign or foreign and indigenous forces. The most interesting nuance was his suggestion that the Soviets now favor negotiations on MBFR independent of a Conference on European Security (CES). The official Pact position has been that MBFR could be considered either in a body to be established by a CES or in any other acceptable forum. He took care to note, however, that Moscow did not accept the NATO concept of "balanced" reductions, which could imply larger reductions in Soviet than in NATO forces.

He was completely noncommittal in regard to questions of timing, site, and specifics of negotiations, and instead invited further discussion of these questions between Washington and Moscow. Gromyko's refusal to spell out the Soviet position now suggests that Moscow intends for the moment to leave the burden of initiative with the West.

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\*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

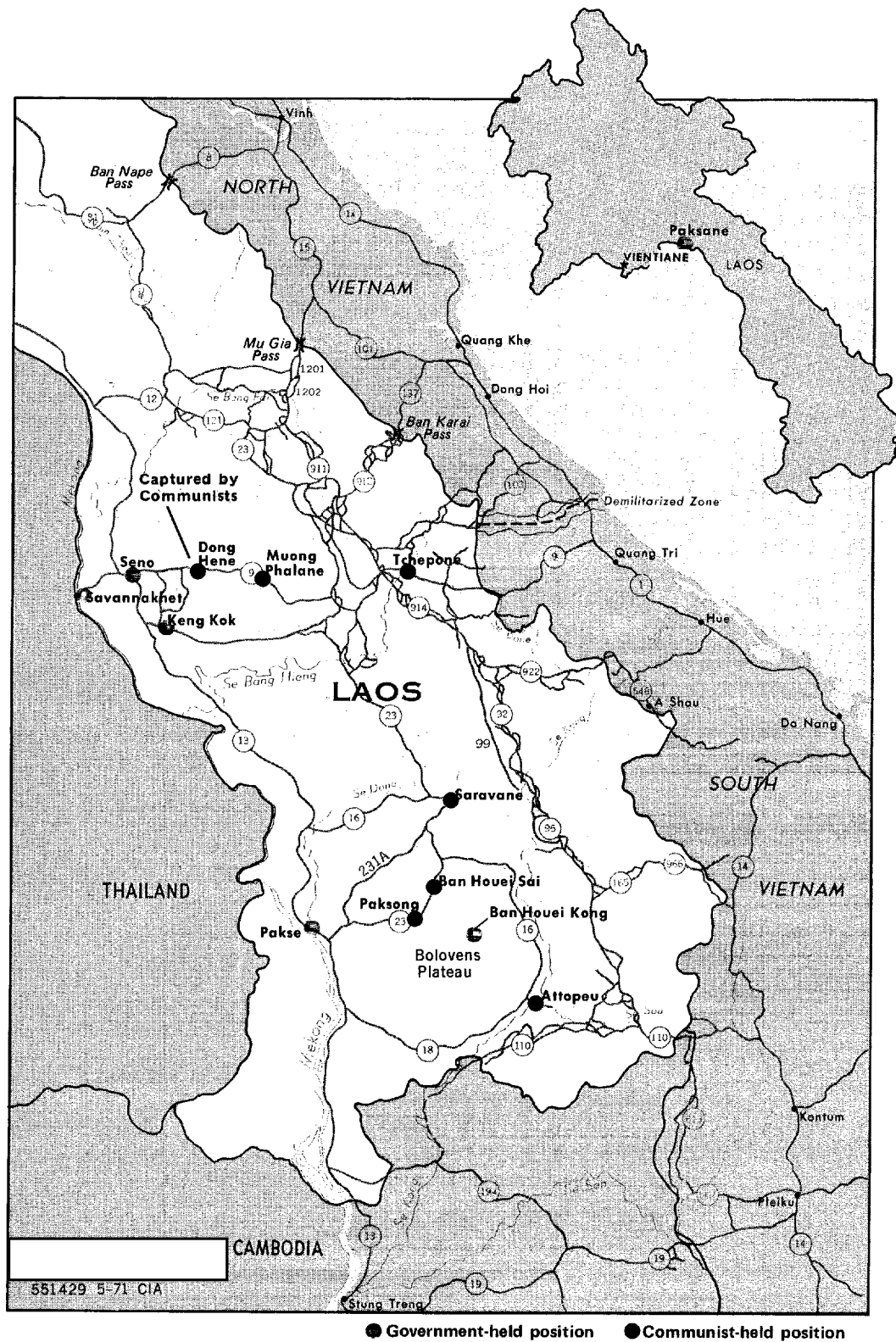
18 May 71

Central Intelligence Bulletin

1

SECRET

SECRET



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SECRET

LAOS: The Communists are keeping up the pressure in Southern Laos.

Yesterday they captured Dong Hene in the western panhandle with a heavy mortar and rocket attack. The town was evacuated in an orderly fashion, and government troops were able to take their artillery with them. This is the farthest the Communists have penetrated westward along Route 9 in several years. They are now in a position to threaten the town of Seno, some 20 miles to the west. Communist prisoners and ralliers have said that Seno would be a target if Dong Hene fell. Communist forces in the area are sufficient to permit continued movement west along Route 9. If the Communists follow past practice, they will undergo a period of consolidation before undertaking major new activity. It may therefore be at least several days before their intentions become clear.

Sketchy reports indicate that a Pathet Lao sapper battalion hit an ammunition dump in the Mekong River town of Paksane yesterday. Rocket fire also hit the Paksane airfield. Although highly vulnerable to Communist attack, Paksane heretofore has been relatively free from enemy harassment.

In the Bolovens area, no major new Communist attacks have been reported in the past 24 hours. The Communists fired rockets into the now isolated base at Ban Houei Kong, the only important site on the plateau still in government hands. Three North Vietnamese battalions reportedly were closing in on that site yesterday.

25X1

18 May 71

Central Intelligence Bulletin

3

SECRET

SECRET

PHILIPPINES: President Marcos' expected efforts to use the upcoming constitutional convention to extend his term of office will deepen public cynicism and increase the likelihood of antigovernment demonstrations.

The convention opens on 1 June with a broad charter to change the Philippine constitution, subject to approval in a national referendum. Despite public denials, the President and Mrs. Marcos are busy pressuring delegates to support constitutional changes that will further their ambitions. They are considering extending the presidential term to six years, in effect enabling Marcos to serve until 1975, although no formula has been settled on. Marcos apparently recognizes that he must move cautiously or run the risk of generating further widespread public opposition.

The leader of the opposition party believes that if Marcos perverts the purpose of the constitutional convention, there is a good chance that the public will become openly hostile. Student radicals, who have been claiming all along that constitutional reform was a sham, have threatened to harass the proceedings. Alert to this, Marcos over the weekend directed the Philippine Constabulary to monitor demonstrations, student teach-ins, and radio and TV broadcasts, and arrest individuals making seditious remarks. Although the President probably saw the directive as a means to crack down on the radicals without imposing martial law, the outcry in the media suggests that this action will only strengthen the radicals' hand.

25X1

18 May 71

Central Intelligence Bulletin

4

SECRET

SECRET

CYPRUS: Another period of intense maneuvering is getting under way.

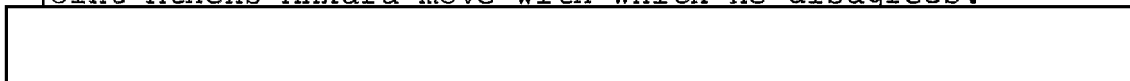
Several recent incidents have threatened to end the intercommunal talks, now dragging into their third year. Cypriot President Makarios started the trouble with several public statements favoring "enosis" (union with Greece), an issue he had allowed to lie relatively dormant for the past few years.

The Turkish Government has replied by offering strong support to the Turkish-Cypriot community, asserting that the intercommunal talks were proving fruitless but deserved one "last chance." If, as Ankara expects, the talks finally fail, the Turkish Government proposes to sustain the Turkish Cypriots as a separate, quasi-independent state and promises an airlift if the Greek Cypriots in retaliation should move to isolate the Turks on the island. Makarios has vowed to prevent the establishment of a separate Turkish-Cypriot state at all costs.



25X1

Even if the Greek and Turkish governments could reach agreement, it is still unlikely that Makarios could be forced to accept their views. Makarios believes he can count on Soviet diplomatic support as well as US and general UN pressures to fend off any joint Athens-Ankara move with which he disagrees.



25X1

18 May 71

Central Intelligence Bulletin

5

SECRET



SECRET

TRINIDAD-TOBAGO: Prime Minister Williams' ruling People's National Movement (PNM) is guaranteed victory in the general elections on 24 May.

The principal opposition coalition party collapsed in confusion last week after its leader, A. N. R. Robinson, unilaterally decided to boycott the elections. The coalition leadership is bitter with Robinson for deciding to withdraw. Local radical groups have been urging a boycott, charging that the government plans to manipulate the election results.

The legitimacy of the elections is now the main issue in the campaign, and the absence of a large voter turnout could indicate that the PNM has lost the public's confidence, but may more accurately reflect voter apathy. According to the US Embassy, only the radicals are likely to gain. The possibility of postelection disturbances has increased, but the security forces should be able to contain any violence.

25X1

18 May 71

*Central Intelligence Bulletin*

6

SECRET

SECRET

TANZANIA: The government has created some potentially serious economic problems as a result of efforts to put its financial house in order.

To cut down on excessive government spending and on an outflow of foreign exchange, the government implemented exchange controls in March and decided to reduce development spending. In line with these decisions, the National Bank of Commerce recently placed a restrictive limit on overdrafts for all customers. The State Trading Corporation, which manages most of the country's import and export trade, and the National Development Corporation (NDC), which controls the larger industrial plants, were hit particularly hard by this policy. Because of an apparent lack of intragovernmental coordination, both of the state corporations have had checks bounced in the last two weeks, and some of the NDC's companies may soon have trouble meeting their payrolls.

The small private sector is also feeling the pinch because of credit restrictions and a loss of income from buildings recently seized by the government without compensation. The mood within the business community in Dar es Salaam reportedly is gloomy, and business is at a "standstill." Local traders are unable or unwilling to place any large orders, and private building projects have come to a halt, causing a rise in unemployment.

This economic uncertainty has generated a plethora of rumors regarding further government moves against the private sector, of dissension within the government, and even of coups. The US Embassy reports that the political situation is "fundamentally stable," however, although the government will obviously have to take some remedial steps soon to avert large layoffs of workers in NDC enterprises. Moreover, in spite of its unskillful handling of the economy, the government's fiscal position is still basically sound and, in all likelihood, it will be able to muddle through.

18 May 71

Central Intelligence Bulletin

7

SECRET

25X1

SECRET

ITALY-FRANCE: The Czechoslovak issue is still divisive in the Italian and French Communist parties.

The leaders of the Italian Party (PCI) have been debating what level delegation to send to the Czechoslovak Communist Party Congress opening on 25 May. Deputy Secretary General Berlinguer has suggested sending only an "observer" who would deliver a message restating the PCI's critical view of the Soviet intervention in Czechoslovakia and of the postinvasion "normalization" period. Pro-Soviet elements in the nine-man PCI Politburo apparently blocked this proposal, holding out for the dispatch of a full, high-level delegation. The strength of these elements is out of proportion to their numbers because they are backed by strong Soviet endorsement.

The Italians have sought to coordinate their policy on representation at the Czechoslovak congress with the French Communist Party (PCF). The issue has also caused disagreement within the PCF, which reportedly has now decided to send Raymond Guyot, a member of the PCF Politburo, presumably as a compromise choice. Guyot meets the desire of pro-Soviet elements for high-level representation, but he is also associated by family ties with the Czechoslovak reformers of the Dubcek period.

The Czechoslovak issue is of fundamental importance to both parties because it raises the question of their independence from Moscow and of the conflict between their national and international loyalties. Over the past year, each of these parties has been seeking to increase cooperation with non-Communist parties at home.


25X1

18 May 71

Central Intelligence Bulletin

8

SECRET

SECRET

NOTES

\*AUSTRIA - COMMUNIST CHINA: Representatives of the two countries have agreed in Bucharest on the establishment of diplomatic relations. Agreement on the text of a communiqué is based upon Austrian acceptance of the People's Republic of China as the "sole legal government of China"--a formula that has been used in a series of previous recognition announcements. [redacted] formal announcement of diplomatic relations may be expected as early as next week in the respective capitals.

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[redacted]

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ROMANIA: [redacted]

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[redacted] President Ceausescu intends to tour Peking, Pyongyang, and Hanoi, probably in June. Ceausescu has traveled to Communist China once before, but this would be his first junket to the Orient as party and state chief. Despite the inevitable objections from Moscow, Ceausescu probably has been considering for some time paying a visit to his Chinese benefactors, who only recently granted a sizable long-term loan to Bucharest. In the Romanians' view such a trip is called for because of the steadily improving political and economic relations with Peking, and it would help to counterbalance Ceausescu's private tour of the US last fall. Ceausescu also will go to Finland in late June, [redacted]

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18 May 71

Central Intelligence Bulletin

9

SECRET

SECRET

USSR: Recent remarks by a Soviet official are the first admission that the Soviet Union has biological warfare stockpiles. V. V. Shustov, deputy chief of the Soviet delegation to the Geneva Disarmament Conference, asked a US delegate whether the US would agree to a provision in the BW convention requiring a report of the destruction of BW stocks. When Shustov was asked if the Soviet Union would submit such a report and whether there would be destruction to report, he replied affirmatively. BW-related research and development in the USSR have led US intelligence to assume that the Soviets have BW stockpiles, but there is no physical evidence to support the assumption. [REDACTED]

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SAUDI ARABIA: King Faysal embarked Sunday on a goodwill trip to Japan and Nationalist China, stopping off at Tehran en route. Japan--a large consumer of Saudi Arabian oil--has long urged Faysal to pay a visit in order to strengthen contacts between the two countries. Nationalist China welcomes such visits as an illustration of its claim that Taipei enjoys world-wide support. It is not known what other countries would be included if the trip becomes a world-circling tour, but present plans call for the King to be absent until at least the latter part of May. [REDACTED]

25X1

25X1

18 May 71

Central Intelligence Bulletin

10

SECRET

SECRET

CHILE: Recent expropriations of domestically owned textile firms are causing friction with major Western European creditors. The textile firms previously received credits guaranteed by official German and French institutions and the issue of repayment has raised government-to-government controversies. Germany and France have taken the position that the Allende administration is now responsible for the loans and are pressing for payment. Chile may be worried that such payments would establish a precedent, but out of concern for its credit standing in Western Europe, the government probably will find some way to meet these debts.

25X1

BOLIVIA: Increasing evidence that dissident military and political groups are making progress toward the formation of a common antigovernment front may lead to pre-emptive moves by President Torres. The lack of organization and preparedness of these forces, which are concerned about the regime's leftward drift, makes immediate action unlikely. Torres has previously neutralized opposition in its formative stages. A crackdown now, however, could trigger an impulsive and uncoordinated coup attempt.

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VENEZUELA: Opposition is emerging against plans by the government to develop natural gas exports. President Caldera's proposed legislation, now being debated by Congress, would nationalize the gas resources of foreign oil companies, apart from the supplies needed for repressuring oil wells. The companies charge that the bill violates their concession agreements and are lobbying vigorously to have it watered down. At the same time, some Venezuelans are questioning planned government investment of \$1 billion during the next four years in the liquefaction of gas for export, a project whose technology and profitability they feel have not been fully demonstrated.

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18 May 71

Central Intelligence Bulletin

11

SECRET

25X1

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AFGHANISTAN: The resignation on 16 May of Prime Minister Etemadi and his cabinet is a result of growing dissatisfaction in Parliament with their generally weak performance. Etemadi-led governments have held office since late 1967. Dr. Abdul Zahir, a prominent politician and diplomat who is a close friend of King Muhammad Zahir Shah, is Etemadi's most likely replacement. The King, however, will remain the dominant force, and the new government in all likelihood will continue the country's cautiously reformist domestic program as well as its nonaligned international posture.

25X1

18 May 71

*Central Intelligence Bulletin*

13

SECRET



**Secret**